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November 18, 1982

Letter Report 248

Honorable Walter M. Ingalls  
Chairman, and Members of the  
Joint Legislative Audit Committee  
925 L Street, Suite 750  
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a request by the Joint Legislative Audit Committee and the Supplemental Report of the Committee of Conference on the Budget Bill of 1982, we have examined the State Department of Mental Health's method of allocating state hospital days of service to counties during fiscal years 1979-80 and 1980-81. The Supplemental Report requested that we determine whether any counties used more hospital days than they were allocated and whether the State Department of Mental Health (department) took appropriate action to recover funds from counties that exceeded their allocations. We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the Government Code. In addition, we conducted this audit in accordance with generally accepted governmental auditing standards except that our work was limited to that requested by the Legislature.

State law requires counties to use all available local public and private facilities to treat mental patients before using state hospitals. The Department of Mental Health monitors state hospital use by allocating "patient days" to the individual counties. Patient days refer to the number of days that patients occupy beds in a mental health facility. The initial allocation of patient days, which provides the counties with the number of allowable patient days at the beginning of the fiscal year, may be adjusted during the fiscal year to reach a final allocation.

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During fiscal year 1979-80, the counties' use of state hospitals totaled approximately 1,121,000 patient days, which was approximately 29,000 patient days less than they were allocated. However, 17 counties exceeded their allocations by a total of approximately 2,800 patient days. To provide additional funds for the state hospitals, the department had originally planned to adjust the local assistance funds for those counties that exceeded their allocations. However, the department did not reduce the local assistance funds because total allocated patient days were not exceeded, and the Director of the Department of Finance thought that any reduction in local assistance funds would increase the use of state hospitals.

During fiscal year 1980-81, the counties used approximately 1,061,000 patient days. This figure is about 9,000 patient days more than the final allocated patient days calculated by the department but approximately 109,000 patient days less than the allocations proposed by the Legislature in the Supplemental Report of the Committee of Conference on the Budget Bill of 1980. As of September 30, 1982, the department had not decided whether to use its estimated final allocated patient days or its initial allocated patient days based upon the Supplemental Report to determine which counties exceeded their allotted number of days.

#### BACKGROUND

The Department of Mental Health administers mental health programs under the authority vested by the Lanterman-Petris Short Act and the Short-Doyle Act. The Lanterman-Petris-Short Act entitles mentally handicapped persons to live in residential surroundings and requires that the local communities provide for the care and treatment of mental patients. The Short-Doyle Act requires that counties use county and private facilities to provide the mental health services before they use state hospitals.

The department allocates community mental health funds to counties in two ways. For fiscal year 1982-83, the Legislature appropriated \$564.5 million to the department for community mental health services. \$350.7 million of this amount is for local assistance, which the department apportions among the

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counties. \$213.8 million is appropriated to state hospitals for the purpose of providing services to county patients. The department controls counties' use of state hospitals by allocating a specific number of state hospital patient days to each county. Patient days are the total number of days that patients occupy beds in a facility. Ten patients occupying beds for one day or one patient occupying a bed for ten days would both constitute ten patient days. The Budget Act of 1982 requires that the Department of Finance approve the department's allocations to the counties.

The department considers state hospitals as complements to counties' mental health services. These hospitals provide specialized inpatient services that are not available in local communities. The State's five mental health hospitals are Atascadero, Metropolitan, and Patton, operated by the State Department of Mental Health, and Camarillo and Napa, operated by the State Department of Developmental Services.

#### SCOPE AND METHODOLOGY

Our review addressed the specific concerns presented in the Supplemental Report of the Committee of Conference on the Budget Bill of 1982. We verified, from department documents, each county's use of state hospital services during fiscal years 1979-80 and 1980-81. We also determined if the department sought to recover the cost of additional services from those counties exceeding their allocations, and we determined if the counties fulfilled their obligations.

We reviewed the Department of Mental Health's method of allocating state hospital patient days to counties for fiscal years 1979-80 and 1980-81. We also examined state statutes and regulations to determine the requirements for state hospital use by local mental health programs. Finally, to determine how these requirements were fulfilled, we interviewed department officials involved in the allocation process, and we reviewed department records and files.

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#### AUDIT RESULTS

The remainder of this letter is separated into three sections. The first section describes how the Department of Mental Health (department) allocates state hospital services each year. The next section describes how the department resolved excess use of state hospitals during fiscal year 1979-80 by reallocating additional days to those counties that used all their allocations. The final section discusses counties' use of state hospitals during fiscal year 1980-81. As of September 30, 1982, the department had not settled on a policy for determining which counties exceeded their allocations.

#### The Department of Mental Health's Allocation of State Hospital Services

At the beginning of the fiscal year, the department provides the counties with initial allocations of patient days once the budget act is approved. According to the Chief of the County Allocation and Plan Management Section, the counties use these initial allocations to govern their use of state hospitals during the fiscal year. The department modifies the initial allocations to redistribute patient days as necessary.

The department may redistribute patient days when counties lack local facilities and therefore need additional patient days. For example, County A may need 2,000 patient days during a fiscal year but receive only 1,800 as an initial allocation. On the other hand, County B may need only 4,000 patient days even though it received 4,500 as an initial allocation. The department may elect to decrease County B's allocation and increase County A's allocation by 200 patient days. During both fiscal year 1979-80 and fiscal year 1980-81, the department changed the initial allocations and provided additional patient days to those counties that the department projected would exceed their allocations.

In addition, the department reduces patient days if a county signs a performance agreement that increases that county's local assistance funds and decreases that county's allocated patient days for state hospitals. The Budget Act of 1980 provided \$15 million for such performance agreements so that

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counties may establish nonhospital, community-based services and reduce their use of state hospitals. Currently, 18 counties have signed performance agreements with the department.

At the end of each fiscal year, the department provides the final allocations to the counties, reflecting any redistribution of local assistance funds and patient days made to a county's initial allocations during the fiscal year. The counties and the State then use the final allocations to determine the maximum amount from the State's General Fund available to the counties for the fiscal year.

Counties' Use of Hospital Services During Fiscal Year 1979-80

During fiscal year 1979-80, the 58 California counties combined did not exceed their total final allocations even though 17 counties exceeded their individual final allocations by a total of approximately 2,800 patient days. The department had planned to reduce the local assistance funds allocated to these 17 counties to pay for excess hospital services. However, the department elected instead to reallocate patient days from other counties because these other counties had not used their entire allocations. In addition, the Director of the Department of Finance thought that a reduction in local assistance funds would decrease community mental health services and therefore increase the counties' use of state hospitals.

The 58 California counties used, in total, approximately 1,121,000 patient days during fiscal year 1979-80. At the end of the fiscal year, the department allocated approximately 1,150,000 patient days to the counties. As a result, the counties used approximately 29,000 patient days less than the department allocated. However, 17 counties used a total of approximately 2,800 patient days more than they were allocated. For example, Ventura County exceeded its allocation by 878 patient days, and San Diego County exceeded its allocation by 558 patient days. (Appendix A compares patient days allocated to patient days used for fiscal year 1979-80.)

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At the beginning of the fiscal year, the department notified the counties that those counties that exceed their allocations may have their local assistance funds reduced to offset the excess cost incurred by state hospitals. However, the department said that it would base any adjustment to counties' local assistance funds upon the actual cost of hospital services and that it would distribute any savings in the state hospital system before adjusting local assistance funds.

After the end of the 1979-80 fiscal year, the department did not reduce the local assistance funds of those 17 counties that exceeded their allocations. Because the other 41 counties had not exceeded their allocated patient days, there were sufficient savings in the state hospital system to offset the additional use by the 17 counties. In addition, the Director of the Department of Finance thought, at the time, that if the Department of Mental Health penalized the counties for overusing the state hospitals by reducing local assistance funds, the resultant reduction in local services would lead to increased demand for state hospital services.

We did not determine what effect reducing local assistance funds might have on state hospital use, however, because the time limitations imposed upon our review prevented our examining county operations. In addition, as we will explain in the next section, the department may implement a new policy applicable to fiscal year 1980-81 and reduce the local assistance funding for any counties that exceed their allocated patient days regardless of the total use throughout the State.

#### Counties' Use of Hospital Services During Fiscal Year 1980-81

Twenty-seven counties used a total of approximately 15,000 patient days more than the department allocated to them at the end of the 1980-81 fiscal year. The department's policy for fiscal year 1980-81 required larger counties exceeding their allocations to cover half the cost of their additional use of state hospitals. However, the department's policy did not clarify whether the initial allocations or the final allocations would be used in determining which counties exceeded their allowable patient days. As of September 30, 1982, the department had still not decided which allocation to use.

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The 58 counties used approximately 1,061,000 patient days during fiscal year 1980-81, which was about 9,000 patient days more than the department allocated at the end of the fiscal year. Twenty-seven of the counties exceeded their final allocations by approximately 15,000 patient days. These 27 counties include Los Angeles County, which used 4,231 patient days more than it was allocated, San Mateo County, which used 3,658 patient days more than it was allocated, Contra Costa County, which used 2,908 patient days more than it was allocated, and Ventura County, which used 1,952 patient days more than it was allocated. (Appendix B compares patient days allocated to patient days used for fiscal year 1980-81.)

The department has not decided which allocations, initial or final, to use to determine the maximum amount of funds available to the counties for fiscal year 1980-81. The Supplemental Report of the Committee of Conference on the Budget Bill of 1980 proposed the number of patient days to allocate to each county. The department made the fiscal year 1980-81 initial allocations based upon the Supplemental Report. Additionally, in June 1981, the department calculated the fiscal year 1980-81 final allocations based upon 10 months rather than a full year of hospital data.

In determining which counties exceeded their allocations, the department could reduce funds to different counties, depending upon which allocations it uses. According to the department's calculations, if the department uses the initial allocation to determine which counties exceeded their allowable patient days, the department would assess four counties about \$607,000. If the department uses the final allocation to determine which counties exceeded their allowable patient days, the department would assess seven counties about \$1,277,000. Table 1 on the next page compares the results of using the initial allocations to the results of using the final allocations. As the table shows, only three counties would have their local assistance funds reduced under both situations: Contra Costa County, San Mateo County, and Ventura County.

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TABLE 1

DEPARTMENT OF MENTAL HEALTH  
POTENTIAL REDUCTION IN LOCAL ASSISTANCE FUNDS  
BASED ON INITIAL ALLOCATIONS AND BASED ON FINAL ALLOCATIONS  
FISCAL YEAR 1980-81

<u>County</u>	Potential Reduction Using <u>Initial Allocations</u>	Potential Reduction Using <u>Final Allocations</u>
Contra Costa	\$227,761	\$ 293,912 <sup>a</sup>
Los Angeles	-	520,540
Marin	2,561	-
Merced	-	12,296
Placer	-	2,203
San Francisco	-	7,799 <sup>a</sup>
San Mateo	309,362	351,607
Ventura	<u>67,015</u>	<u>88,468</u>
Total	<u>\$606,699</u>	<u>\$1,276,825</u>

<sup>a</sup> The department has not determined whether it will fully assess San Francisco County and Los Angeles County for their overuse.

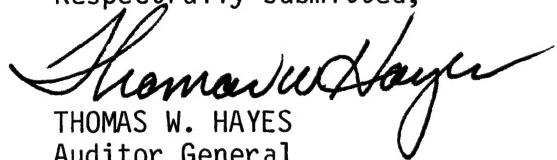
CONCLUSION

The Department of Mental Health provides the counties with initial and final allocations of state hospital patient days during each fiscal year. The department uses these allocations to monitor the counties' use of state hospitals. During fiscal year 1979-80, 17 counties exceeded their final allocations by approximately 2,800 patient days. The department did not reduce the local assistance funds for these counties, however, because total use by all counties did not exceed the total number of available patient days. In addition, the Director of the Department of Finance thought that reducing the local assistance funds would encourage additional use of state hospitals.

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During fiscal year 1980-81, 27 counties exceeded their final allocations by approximately 15,000 patient days, which exceeded the total final allocations of all counties by approximately 9,000 patient days. Department policy stated that large counties will be charged for 50 percent of the cost of state hospital use in excess of allocated patient days. However, as of September 30, 1982, the department had not reduced any local assistance funds because it had not decided whether to use the final allocations calculated by the department or the initial allocations based upon the Supplemental Report of the Committee of Conference on the Budget Bill of 1980 to calculate the maximum amount of state funds available to each county.

Respectfully submitted,



THOMAS W. HAYES  
Auditor General

Staff: Steven L. Schutte, Audit Manager  
Walter M. Reno, CPA  
Murray Edwards  
Rush Russell

Attachments: Response to the Auditor General's Report  
Department of Mental Health

Appendices

**DEPARTMENT OF MENTAL HEALTH**  
1600 — 9th STREET  
SACRAMENTO, CA 95814  
(916) 323-8173



October 26, 1982

Thomas W. Hayes  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

Your Draft Audit Report of October 1982 concerning the Department of Mental Health's process used to allocate state hospital days during Fiscal Years 1979-80 and 1980-81 reasonably reflect the Department's effort in those years.

Sincerely,

A handwritten signature in black ink, appearing to read "KJWagstaff".

KENNETH J. WAGSTAFF  
Director

cc: Clyde L. Murrey, Chief  
Division of Community Programs

Lee Tom, Acting Chief  
Division of Financial and  
Information Management

APPENDIX A

**DEPARTMENT OF MENTAL HEALTH  
COMPARISON OF ALLOCATED PATIENT DAYS  
TO USED PATIENT DAYS BY COUNTY  
FISCAL YEAR 1979-80**

<u>County</u>	<u>Final Allocated Patient Days</u>	<u>Used Patient Days</u>	<u>Used Days Exceeding Final Allocation</u>
Alameda	115,500	107,120	
Alpine			
Amador	400	323	
Butte			
Calaveras	1,300	960	
Colusa	400	344	
Contra Costa	43,100	42,647	
Del Norte	600	584	
El Dorado	2,400	2,441	41
Fresno	3,200	2,962	
Glenn	400	366	
Humboldt	3,600	3,079	
Imperial	1,300	1,296	
Inyo	1,100	820	
Kern	24,700	22,640	
Kings	900	994	94
Lake	2,500	2,412	
Lassen-Plumas*	1,900	1,702	
Los Angeles	470,200	462,048	
Madera	600	634	34
Marin	13,200	13,489	289
Mariposa			
Mendocino	3,800	3,936	136
Merced	2,000	1,852	
Modoc		71	71
Mono			
Monterey	8,700	8,906	206
Napa	9,900	9,985	85
Nevada	1,200	1,219	19
Orange	57,600	57,650	50
Placer	3,500	3,216	
Riverside	19,500	18,892	
Sacramento	21,800	20,848	
San Benito	1,000	1,037	37
San Bernardino	24,100	23,728	
San Diego	22,100	22,658	558
San Francisco	95,200	92,960	
San Joaquin	29,600	28,245	
San Luis Obispo	3,900	3,298	
San Mateo	27,100	26,761	
Santa Barbara	10,400	10,234	
Santa Clara	32,000	30,134	
Santa Cruz	6,400	5,960	
Shasta	4,500	4,275	
Sierra			
Siskiyou	1,400	1,167	
Solano	21,800	21,135	
Sonoma	16,300	16,239	
Stanislaus	9,600	9,546	
Sutter-Yuba*	500	436	
Tehama	300	309	9
Trinity	100	157	57
Tulare	2,700	2,922	222
Tuolumne	600	459	
Ventura	20,500	21,378	878
Yolo	4,800	4,817	17
<b>Subtotal</b>	<b><u>1,150,200</u></b>	<b><u>1,121,291</u></b>	<b><u>2,803</u></b>
<b>Unused allocated patient days</b>		<b><u>28,909</u></b>	
<b>Total</b>	<b><u>1,150,200</u></b>	<b><u>1,150,200</u></b>	<b><u>2,803</u></b>

\*These counties have combined their mental health programs to save administrative costs.

**DEPARTMENT OF MENTAL HEALTH  
COMPARISON OF ALLOCATED PATIENT DAYS  
TO USED PATIENT DAYS BY COUNTY  
FISCAL YEAR 1980-81**

<u>County</u>	<u>Final Allocated Patient Days</u>	<u>Used Patient Days</u>	<u>Used Days Exceeding Final Allocation</u>
Alameda	69,446	68,488	
Alpine			
Amador	139	249	110
Butte			
Calaveras	782	770	
Colusa	299	310	11
Contra Costa	44,534	47,442	2,908
Del Norte	365	365	
El Dorado	3,474	3,418	
Fresno	2,316	2,450	134
Glenn	455	416	
Humboldt	2,625	2,666	41
Imperial	2,179	2,199	20
Inyo	550	580	30
Kern	16,687	16,378	
Kings	905	926	21
Lake	3,161	3,334	173
Lassen-Plumas*	973	1,024	51
Los Angeles	459,506	463,737	4,231
Madera	83	130	47
Marin	13,381	13,215	
Mariposa			
Mendocino	5,732	5,192	
Merced	1,651	1,783	132
Modoc	73	83	10
Mono	100	23	
Monterey	9,370	8,970	
Napa	11,416	11,267	
Nevada	1,573	1,732	159
Orange	58,958	58,773	
Placer	3,004	3,028	24
Riverside	15,326	15,860	534
Sacramento	21,164	20,441	
San Benito	686	610	
San Bernardino	23,712	23,553	
San Diego	22,646	22,983	337
San Francisco	87,649	87,732	83
San Joaquin	16,269	15,494	
San Luis Obispo	2,773	2,466	
San Mateo	27,039	30,697	3,658
Santa Barbara	8,351	8,042	
Santa Clara	27,243	27,130	
Santa Cruz	6,120	6,119	
Shasta	4,333	4,513	180
Sierra			
Siskiyou	939	912	
Solano	21,794	21,708	
Sonoma	15,312	15,292	
Stanislaus	7,110	6,928	
Sutter-Yuba*	418	467	49
Tehama	388	467	79
Trinity	383	380	
Tulare	3,107	2,889	
Tuolumne	738	794	56
Ventura	19,913	21,865	1,952
Yolo	4,672	4,581	
<b>Subtotal</b>	<b>1,051,822</b>	<b>1,060,871</b>	<b>15,030</b>
<b>Patient days used in excess of allocations</b>	<b>9,049</b>		
<b>Total</b>	<b>1,060,871</b>	<b>1,060,871</b>	<b>15,030</b>

\*These counties have combined their mental health programs to save administrative costs.